

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 HARARE 000710

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EINV](#) [ZI](#)

SUBJECT: Exporters Traverse Minefield

1. (SBU) Summary: Battered but unbowed, exporters in the Eastern Zimbabwe town of Mutare are still hanging tough. But how long can these resourceful industrialists withstand a sub-market exchange rate, energy rationing and political turmoil? End Summary.

Dogged Perseverance

2. (SBU) While in Mutare April 7-8, Econchief visited reps from 6 export firms, the timber association and the local Confederation of Zimbabwe Industries (CZI). Their stubborn perseverance is admirable. Beset by hostile government, 221 percent inflation, power rationing, fuel shortages, an overvalued Zimdollar and political upheaval, these businesspeople still manage to wring modest profits out of a nose-diving economy. As exporters, of course, they are spared the GOZ's domestic price controls, operate on a more rational U.S. dollar-based economy and benefit from Zimbabweans' high-caliber workmanship at bargain-basement US\$ 10/month salaries. But the challenges of doing business here are still enormous.

Power Rationing

3. (SBU) Their most pressing concern is energy. The firms we spoke with are enduring 4-6 hours of outages each day, double the norm in Harare. The Managing Director at PG Safety Glass, windshield supplier to the U.S., said the slow process of restarting the glass-heating process turns each 4-hour shut-down into an 8-hour ordeal of lost work. Power rationing has already stretched the firm's delivery time from 3-to-7 weeks.

4. (SBU) Meanwhile, energy parastatal ZESA is trying to increase exponentially exporters' monthly bills. It just raised Mutare Board and Paper Mills from Z\$ 20 to 450 million, PG Safety Glass Z\$ 3 to 90 million and Border Timbers Z\$ 2 to 76 million. How to cope with exploding costs and frequent outages? Mutare Board and Paper's operations manager has successfully lobbied ZESA for a reduction from the proposed Z\$ 450 to 205 million, convincing the GOZ that it would not have paper to print the state-run Herald and other press. Several firms have begun graveyard shifts to make up for scheduled morning or afternoon shut-offs. Others are overproducing when power is available, building a reserve stock of products for low-energy periods.

Other Obstacles

5. (SBU) However, the industrialists' headaches do not end there. The 20-year old tea-bagging machine at Tanganda, Zimbabwe's large tea producer, functions so shabbily that it wastes 40 percent of packing material. At the same time, the GOZ slashed Tanganda's controlled prices in half after it announced higher-than-expected profits in January (required for listed companies). The Financial Manager decried the GOZ's ingrained ideological hostility to honest profit-making.

6. (SBU) From the political spectrum's other end, opposition Movement for Democratic Change (MDC)'s recent two-day stayaway caught firms in a tough bind. Border Timbers, which makes wooden doors for Home Depot, successfully implored employees to ignore the stayaway. Border's management argued the mammoth U.S. home-improvement chain would be unsympathetic to late shipments caused by political protest. Consequently, local MDC officials blast the company's "pro-government" stance.

7. (SBU) Unstable politics clearly hurts. Border Timbers said its U.S. agent has begun diverting business to South African competitors. Although he considers Border Timber's product better and cheaper, the agent seeks a

hedge against political or economic collapse in Zimbabwe. As a result, Border Timber has had to reduce weekly U.S.-bound container shipments from 8 to 5.

Comment

[18.](#) (SBU) The approximate 30-fold disparity in energy prices for exporting and non-exporting firms will divert resources from productive uses. A non-exporting firm has already offered to act as "front-man," buying energy from ZESA at subsidized rates and covertly selling to exporters at a lower rate. As with firms that now buy maize-meal or fuel at controlled prices, then resell at market rates, Zimbabwe's distortion-laden economy fosters such rent-seeking opportunism.

[19.](#) (SBU) That Mutare's exporters are enduring, even profiting, is a measure of remarkable entrepreneurship. When Border Timbers first approached the U.S. market 5 years ago, Home Depot's obsession with quality was "far beyond anything we could imagine." Yet after 2 years of losses, the company became Home Depot's most dependable door producer - a success story with parallels throughout Zimbabwe's economy. But even Mutare's adroit managers will not be able to overcome a permanently shattered economic infrastructure.

Sullivan